



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	SB0418	Title:	Revise administrative provisions of individual income tax
Primary Sponsor:	Branae, Gary	Status:	As Amended in House Committee

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|--|--|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$435,000	\$645,962	\$640,295	\$636,248
Net Impact-General Fund Balance	<u>\$435,000</u>	<u>\$645,962</u>	<u>\$640,295</u>	<u>\$636,248</u>

Description of fiscal impact: This bill updates language and procedures, and has three provisions with fiscal impacts:

- Applies a limit of \$5,000 on the deduction for federal income tax apply to trusts and estates
- Increases the income a person who is not a qualifying child of the taxpayer may earn and be claimed as a dependent from \$800 to the personal exemption amount
- Makes interest the state pays on a refund from a late-filed income tax return begin on the date the return is filed rather than the date when the return was due

FISCAL ANALYSIS

Assumptions:

1. This bill would limit the itemized deduction for federal income tax for an estate or trust to the same level as individual income tax—\$5,000—beginning with tax year 2010.
2. Tax liability was recalculated for 2007 income tax returns of estates and trusts with deductions for federal income tax limited to \$5,000. If this bill had been in effect, tax liability for estates and trusts would have been approximately \$770,000 higher. This fiscal note assumes that the same reduction in tax liability would occur in future years.
3. Most estates and trusts affected by this bill would increase their estimated payments to reflect their higher tax liability. It is assumed that taxpayers would change their payments at the beginning of tax

year 2010, so the additional payments for this period would be made for half of FY 2010. The additional revenue in FY 2010 would be \$385,000 ($0.5 \times \$770,000$). The increase in revenue for later fiscal years would be \$770,000.

Dependent Income

4. Under current law, a taxpayer is allowed to take an exemption for a dependent who is not their qualifying child if the dependent's income is less than \$800. This bill would increase the limit on the dependent's income to the personal exemption amount, beginning in tax year 2010.
5. With the increased limit on a dependent's income, some taxpayers would claim an additional dependent. In most cases, the additional dependent would be a parent or other relative who is elderly or disabled. To estimate the number of additional dependents who could be claimed under this bill, the number of taxpayers who filed a 2007 return as singles, who had Montana adjusted gross income between \$800 and the exemption amount of \$2,040, and who claimed an additional exemption for being 65 or older or blind was tabulated. The number is 1,372.
6. The personal exemption amount is adjusted annually for inflation. It is projected to be \$2,150 in 2010, \$2,220 in 2011, and \$2,270 in 2012.
7. On average, the marginal tax rate (tax on an additional dollar of taxable income) of taxpayers who claimed one or more dependents is 5.9%.
8. The annual reduction in tax liability is the product of the number of additional exemptions taxpayers would claim, the value of an exemption, and the marginal tax rate. It is \$174,038 for 2010, \$179,705 for 2011, and \$183,752 for 2012.
9. The additional exemptions will be claimed on tax returns filed in the fiscal year following the tax year. Thus, the reductions in tax liability in assumption 8 will show up as reduced revenue in FY 2011 through FY 2013.

Refund Interest

10. Under current law, when a taxpayer files a late income tax return claiming a refund, the Department of Revenue pays interest on the amount refunded from the date the return was originally due. This bill would make interest payable from the date the return was filed. This would reduce the amount of interest paid out from the general fund in cases where the department has identified non-filers, brought them into compliance, and they turn out to be due a refund. The department has concluded, based on several recent cases, that the amount of reduced interest will be greater than \$10,000 but less than \$100,000. This fiscal note assumes the amount will be \$50,000, beginning in FY 2010.

Total

11. The net impact to general fund revenue will be an increase of \$435,000 in FY 2010 ($\$385,000 + \$50,000$), \$645,962 in FY 2011 ($\$770,000 - \$174,038 + \$50,000$), \$640,295 in FY 2012 ($\$770,000 - \$179,705 + \$50,000$), and \$636,248 in FY 2013 ($\$770,000 - \$183,752 + \$50,000$).
12. Changes to tax forms required by this bill will be made as part of the annual update process with no additional costs to the Department of Revenue..

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund--\$5000 Limit	\$385,000	\$770,000	\$770,000	\$770,000
General Fund--Dependent Income	\$0	(\$174,038)	(\$179,705)	(\$183,752)
General Fund--Refund Interest	\$50,000	\$50,000	\$50,000	\$50,000
TOTAL Revenues	<u>\$435,000</u>	<u>\$645,962</u>	<u>\$640,295</u>	<u>\$636,248</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	\$435,000	\$645,962	\$640,295	\$636,248

*Sponsor's Initials*_____
*Date*_____
*Budget Director's Initials*_____
Date